G-007/M-92-212 ORDER APPROVING TARIFF WITH MODIFICATIONS AND REQUIRING FURTHER FILING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Thomas Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of a Request by Northern Minnesota Utilities for Approval of a New Town Rate

ISSUE DATE: May 6, 1992

DOCKET NO. G-007/M-92-212

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PROCEDURAL HISTORY

Between April and June 1, 1991, three Minnesota natural gas utilities filed proposed tariffs to cover the costs of expanding service to communities not yet served with natural gas. The filings were submitted by Peoples Natural Gas Company (Peoples), Northern Minnesota Utilities (NMU) and Minnegasco. All three proposals were meant to balance the needs of communities who wish to obtain natural gas service with the financial needs of utilities who cannot cover the costs of extension under existing tariffs.

On March 10, 1992, the Commission issued its ORDER REJECTING PROPOSED TARIFFS AND REQUIRING REPORT.[1] In that Order the Commission stated its policy of promoting the expansion of natural gas service into areas of Minnesota not currently served. The Commission noted that the expanded availability of natural gas service could bring benefits to individual customers and enhance the economic viability of their communities. The Commission also noted that most communities which can be economically served by existing gas networks under current tariffs are already being served. The Commission stated that further expansion of natural gas service is unlikely to occur unless gas utilities are allowed to recover their excess extension costs directly from customers.

[1] In the Matter of a Request by Peoples Natural Gas for Approval of a New Town Least Cost Energy Rate; In the Matter of a Request by Northern Minnesota Utilities For Approval of a New Town Rate; In the Matter of a Request by Minnegasco for Approval of a New Area Surcharge; Docket Nos. G-011/M-91-296, G-007/M-91-460, G-008/M-91-575.

Because significant policy questions regarding gas service expansion remained unresolved, the Commission decided to deny without prejudice the three petitions for service expansion tariffs. In the March 10, 1992 Order the Commission also directed Department of Public Service (Department) staff and Commission staff to examine the relevant policy issues and to issue a joint report on or before March 12, 1992. The report was duly filed on that date.

On March 18, 1992, NMU filed a new proposal for a service expansion tariff which it called a New Town Rate. This filing is the subject of the current docket. In the filing the Company also requested a variance from Minn. Rules, Part 7825.3200 to allow the proposed tariff to go into effect on less than 90 days notice.

On March 19, 1992, the Commission issued a notice to interested parties requesting comments on NMU's proposal by April 3, 1992.

On April 3, 1992, the Department filed comments in favor of approval of the proposed tariff with certain modifications.

Between March 16, 1992, and April 3, 1992, comments regarding service expansion tariffs and NMU's proposed New Town Rate were received from Interstate Power Company (Interstate), Midwest Gas Company (Midwest), Northern States Power Company (NSP), Peoples, the City of Mapleton (Mapleton), and Northwest Natural Gas Company (Northwest).

NMU's proposed New Town Rate tariff came before the Commission for consideration on April 21, 1992.

FINDINGS AND CONCLUSIONS

The Company's Proposed New Town Rate

NMU proposed a $6.00 per month surcharge for each expansion customer under its New Town Rate. While the surcharge would be the same for each new project, the amount of time it would stay in effect would vary according to the amount of new plant and equipment needed and the number of new customers. NMU would project a surcharge expiration term of from three to 15 years for every project. The expiration date could be shortened if costs were recovered early but could not be extended, even if costs were not fully recovered through the surcharge.

NMU proposed a revenue deficiency formula to determine the length of time the surplus would be in place. The formula would factor in the costs of piping the new area, other non-gas expenses, and additional revenue from the service. NMU's proposed formula would determine an annual revenue deficiency (or surplus) for each year of the project's projected 30 year service life. The annual numbers would be discounted to the present to come up with a net present value for the project's revenue deficiency. This would be the contribution-in-aid-of-construction (CIAC) that the Company would recover through the $6.00 per month customer surcharge. The Company proposed the use of its last approved rate of return, with an adjustment to account for income tax treatment of CIACs, for the discount rate.

As part of its new tariff, the Company proposed filing a report each time it piped a new area. NMU also proposed filing an annual report summarizing the status of each of its areas operating under the New Town Rate.

Comments of the Parties

The Department

In its comments, the Department supported NMU's proposed New Town Rate tariff. The Department believed that the plan would be an equitable means of allowing NMU recovery for the costs of expanding gas service to smaller communities. The Department's support, however, was contingent upon the adoption of certain modifications to the plan. The Department's proposed modifications included the following:

1. Specify in the tariff the monthly rate for Large General Service, Interruptible Service and Large Volume Service customers, with a New Town Rate surcharge of $40.00 per month for Large General Service, $133.00 per month for Interruptible Service, and $133.00 per month for Large Volume Service customers.

2. Add the following language to the section on Term in Subpart 5 of the Company's proposed tariff sheet No. 16:

   > "However, in no circumstances shall the term exceed 15 years."

3. Substitute the following language on Expiration for what the Company proposed in Subpart 6 of tariff sheet No. 16:

   > Expiration: The surcharge for customers in the area subject to the new town rate shall terminate on the date approved by the Commission or on the date on which the approved revenue deficiency has been retired, whichever occurs first.

4. File an "information only" report based on estimated information prior to implementing any new project. Include with the report an updated tariff sheet listing all towns subject to the surcharge.

5. On or before March 1 of each year, submit a single report tracking each of the New Town projects for the previous year. This report would be used by the Commission to review progress on amortization of the deficiency for previously approved projects, and by the Company to submit proposed termination dates for New Town Rate projects begun since the last annual report.

Other Parties

Interstate, Midwest, NSP, Peoples, Mapleton and Northwest submitted comments in favor of the basic concept of a New Town Rate. Some commenting parties favored different methodologies for such a rate, such as a volumetric surcharge instead of a fixed surcharge. None of the parties, however, opposed the adoption of NMU's proposed tariff.

Commission Analysis

The Commission finds that NMU's basic approach to a service extension tariff is reasonable and appropriate. Because the tariff allows customers to pay the costs of new service over a number of years, utilities such as NMU can expand service to new areas without putting existing customers or shareholders at undue risk. Expansion tariffs such as NMU's will be an important means of ensuring that most Minnesotans have the option of natural gas service available to them.

The Commission finds that NMU's proposed fixed monthly charge, with a varying term of expiration, is a reasonable means of matching a fixed rate with the fixed cost of installing new equipment. The Commission notes, however, that another method could be preferable in other circumstances. The Commission will remain open to other proposals as other utilities file their service extension tariffs.

The Commission agrees with the changes recommended by the Department. In addition to those changes, the Commission will require three other modifications:

1. Add a sentence to the Rates section of the tariff, sheet No. 16, Subpart 3, which would state that the net present value of the $6.00 per month surcharge would be treated as a contribution-in-aid-of-construction for accounting purposes.

This change would clarify matters for ratemaking purposes.

2. Require that the tariff be modified after the Commission issues a final Order in any future rate case.

This change would ensure that the tariff accurately reflects the Company's appropriate discount rate, which would be based on the rate case cost of capital. The revenue deficiency formula's cost percentages for depreciation expense, operations and maintenance expense, and property taxes would also reflect the rate case results.

3. Modify the definition of Depreciation Reserve in the revenue requirements formula, on proposed tariff sheet No. 17 to read:

> "...the sum of Book Depreciation for the current year plus all previous years."

This change would decrease the net plant shown for each year, which would in turn decrease the calculated property taxes, normal return and revenue deficiency. The Commission finds that this adjustment results in a more accurate revenue deficiency formula.

The Commission notes that NMU agreed to the above modifications, as well as those recommended by the Department.

The Requested Variance

In its March 18, 1992 filing, NMU requested a variance from Minn. Rules, Part 7825.3200 to allow the Company to implement the New Town Rate surcharges on less than 90 days notice. Minn. Rules, Part 7825.3200 requires a utility filing for a change in rates to serve notice on the Commission at least 90 days prior to the proposed effective date of the modified rates.

Requests for variances are governed by Minn. Rules, Part 7830.4400. Under that rule, the Commission must grant a requested variance to one of its rules if the following factors are met:

1. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule.

In this case, requiring 90 days notice before the proposed New Town Rate tariff went into effect would mean that NMU would be unable to begin its proposed service expansion project in this construction season. This would be an excessive burden upon the Company and upon the parties who are awaiting expanded service.

2. Granting of the variance would not adversely affect the public interest.

Allowing the Company to begin construction on expanded gas service projects would have a positive effect on customers who wish to have the option of gas service available to them. No party would be harmed by the reduction of the notice period.

3. Granting of the variance would not conflict with standards imposed by law.

A shortened notice period would not conflict with legal standards.

NMU's request for a variance fulfills the requirements of Minn. Rules, Part 7830.4400. The Commission will grant the Company a variance to Minn. Rules, Part 7825.3200 to allow the Company to put the New Town Rate tariff into effect upon 60 days notice.

ORDER

1. Northern Minnesota Utilities' New Town Rate tariff filed March 18, 1992, is approved with the eight modifications discussed in this Order.

2. On or before 30 days from the date of this Order, the Company shall file a revised copy of its New Town Rate tariff which demonstrates compliance with the requirements of this Order.

3. The Company is granted a variance from Minn. Rules, Part 7825.3200 to allow the New Town Rate tariff to go into effect upon 60 days notice.

4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)